

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2021/2022 SESSION

BFN3034 – BEHAVIOURAL FINANCE

8 AUGUST 2022
9.00 A.M. to 11.00 A.M.
(2 hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 2 pages excluding cover page.
2. Answer **ALL** questions. The marks for each question are given in the question paper.
3. Please write your answers for all the questions in the answer booklet.

Answer ALL questions.

Question 1

- (a) Both Nobel prize winners, Daniel Kahneman and Amos Tversky formed the Prospect theory in 1979. This theory is one of the most often quoted and best-documented phenomena in economic psychology. You are required to discuss what we can learn from prospect theory in financial decision making. Subsequently, discuss how prospect theory is different from expected utility theory in decision making. (20 marks)
- (b) Explain risk behaviour assumed in traditional finance as well as behavioural finance by using the utility function of wealth. You are required to show them in graph forms. Describe with examples of risk behaviour of people in complex risk functions from behavioural finance perspectives. (20 marks)
- (c) Discuss availability bias with an example of its impact as well as how to mitigate the bias. (10 marks)

(Total: 50 marks)

Question 2

- (a) The following questions are on behavioural bias in different cases.
- (i) Halim Hassan has just received new information regarding his investment in Orange, Berhad. The new information appears to conflict with his earlier forecast of what the stock price should be at this point. Nonetheless, he is unwilling to incorporate the new information into his forecast and revise it accordingly. Analyse the behavioural bias that Halim is displaying and its impact as well as how to mitigate it. (10 marks)
- (ii) Belle Lim is a savvy investor who has investments scattered across many different accounts, from bank savings and before-and after-tax retirement accounts to taxable nonretirement accounts. She also has several different investing goals ranging from important short-term goals to longer-term "wish list" goals. She allocates the assets according to her risk-return profile across different asset classes, viewing the investments as comprising a single portfolio with a single measure of risk. Analyse behavioural bias would represent the way Belle Lim approaches her investing. Discuss how she can mitigate this bias. (10 marks)

Continued...

- (iii) Twenty years ago, Anis Ahmad set up her initial asset allocation in her defined contribution plan by placing an equal amount in each asset class and never changing it. Over time, she increased her contribution by 1 percent per year until she reached the maximum amount allowed by law. Due to her good fortune, coupled with contribution from her employer, she now finds herself in her early 40s with RM300,000.00 in her retirement account. Which of the behavioural biases does Anis suffer from?. Explain the impact of the bias as well as ways to mitigate the bias. **(10 marks)**

(b)

- (i) Analyse two types of investors as proposed by Shleifer's noise trader model. Which type of investors is created by Shleifer? **(10 marks)**
- (ii) Analyse how Shleifer's noise trader model is different from the efficient market hypothesis and the main conclusions that we can draw from Shleifer's noise trader model. **(10 marks)**

(Total: 50 marks)

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